



Marex Spectron Europe Limited: OTF System Functionality

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1. INTRODUCTION

- 1.1. Marex Spectron Europe Limited ("MSEL") is authorised and regulated by the CBI as an investment firm conducting MiFID business (Firm authorisation code C180702). MSEL has permission from the CBI to operate an OTF, with effect from the Implementation Date, MSEL will operate MSEL OTF as an OTF trading venue offering a hybrid electronic and voice broking system in compliance with the requirements of MIFID II.
- 1.2. This document provides an outline of MSEL's OTF system, its functionality and its compliance with MIFID II requirements
- 1.3. Definitions: In this document, the following terms are used:

"Client" means a Client of MSEL OTF admitted in accordance with Rule 3 of the OTF Rulebook;

"Electronic Trading System" means the Trayport Global Vision Broker Trading System operated by MSEL OTF or other electronic software as used by the OTF from time to time to facilitate trading in the Products;

"CBI" means the Central Bank of Ireland;

"Implementation Date" means the date from which the MSEL OTF is operational;

"OTF" means an Organised Trading Facility within the meaning of MIFID II;

"MiFID II" means the Markets in Financial Instruments Directive (Directive 2014/65/EU);

"MIFIR" means the Markets in Financial Instruments Regulation (Regulation 600/2014);

"MSEL" means Marex Spectron Europe Limited;

"MSEL Broker" means the MSEL broker or broker of an affiliate of MSEL arranging Transactions for the Client for execution on the MSEL OTF System;

"MSEL OTF System" means, together, the Electronic Trading System and the Voice Trading System;

"MIFID II Implementation Date" means 3 January 2018;

"Non-OTF Products" means all products arranged by MSEL that are not OTF Products;

"OTF Products" means financially or physically settled commodity derivatives, emissions allowances or emissions allowances derivatives eligible for trading on MSEL OTF in accordance with Rule 7 of the OTF Rulebook;

"OTF Electronic User Guide" means the guide given to Clients following their application to the MSEL OTF (as amended from time to time) providing, amongst other things, guidance relating to placing Orders electronically on MSEL OTF;

"OTF Rulebook" means the OTF Rulebook issued by MSEL setting out the rules and procedures relevant to accessing and trading on MSEL OTF;

"Regulated Market" means a Regulated Market within the meaning of MIFID II;

"REMIT Products" means those OTF Products that are subject to the 'REMIT carve-out' in accordance with MiFID II, annex 1, section C6;

"Voice Trading System" means the voice broking system operated by MSEL OTF; and

"Website" means the Marex Spectron website at www.marexspectron.com

1.4. OTF PRODUCTS

The asset classes that will be admitted to trading on MSEL OTF are:

- ▶ Commodity derivatives (comprising sub-asset classes of energy commodity futures/ forwards and energy commodity options);
- ▶ Emission allowances (all sub-asset classes): and
- ▶ Emission allowance derivatives (all sub-asset classes).

The full list of OTF Products that are admitted to trading on MSEL OTF at any time are available on MSEL OTF page on the Website. This list will be updated on an on-going basis.

Contract specifications for each OTF Product admitted to trading on MSEL OTF are available on the Website.

The OTF Rulebook will apply to each of the different asset classes above. The OTF Rulebook does not distinguish between the asset classes and the same rules apply to each asset class.

2. DESCRIPTION OF MSEL OTF SYSTEM FUNCTIONALITY

2.1. Electronic Trading System:

(A) Description

The Electronic Trading System operates in the following manner.

MSEL will provide access to Trayport to those Clients who wish to trade OTF Products and who meet the eligibility criteria set out in the OTF Rulebook.

There are two Clients to each Transaction - the "Initiator" who posts an Order to Trayport and an "Aggressor" who "hits" the Order by clicking on the Order in Trayport.

If a Client wishes to initiate an Order (bid or offer) on Trayport, they will do so directly by clicking on the relevant product box and specifying the price and volume they wish to buy or sell at. Trayport then filters this data by price - bids and offers sit in a stack ordered by price - and by reference to the configuration requirements of each of the companies using the system. The end result is that it is Trayport system stacks the messages by price and shows potential counterparties for which the prices are "good" for that counterparty by reference to credit lines and other criteria as specified by the individual counterparty.

Once a bid or offer Order has been initiated, it will remain on Trayport until either another Client actively "hits" that price, or until it is removed from Trayport (which could be manually done at any time, or may be automatically removed e.g. by stating that it should be removed at the end of the day). The OTF Rulebook provides that Clients should specify the period for which the Order may be accepted when placing the Order.

On Trayport prices and contracts are not automatically "matched" by the system and there is, accordingly, no matching algorithm. Orders will only be matched if a Client actively "aggresses" the Order by manually clicking on the Trayport system to accept the price posted by the Initiator (to "hit" the Order). Where an Order has been "hit", the Transaction will remain pending until such time as the MSEL Broker "confirms" the Transaction having first verified the terms of the Transaction with the Client off-screen. If the MSEL Broker elects to execute the Transaction, they manually click on the matched Orders in Trayport to confirm the Transaction.

(B) Worked example of an Order executed on the Electronic Trading System

Clients "COMA" and "COMB" are trading in the Italian Power baseload market using MSEL OTF and placing orders using the Electronic Trading System.

The information viewed by Clients on Trayport is illustrated in the below tables.

Table 1 illustrates the information visible to the MSEL Broker, which includes the names of Clients placing orders. Tables 2 and 3 show the information COMA and COMB respectively see pertaining to orders on MSEL OTF and, as illustrated in the tables, they can only see the Client name behind their own order. Table 4 illustrates that other Clients are able to see the pertinent information regarding Orders of other Clients using MSEL OTF, but on an anonymous basis only.

Table 1 - MSEL Broker view

MSEL Broker view	Italian BSLD Power					
	Bid			Offer		
	Company	Qty	Price	Price	Qty	Company
1 Jul-19	COMA	10	54.5	55	10	COMB

Table 2 - COMA's view

COMA's view	Italian BSLD Power					
	Bid			Offer		
	Company	Qty	Price	Price	Qty	Company
1 Jul-19	COMA	10	54.5	55	10	

Table 3 - COMB's view

COMB's view	Italian BSLD Power					
	Bid			Offer		
	Company	Qty	Price	Price	Qty	Company
1 Jul-19		10	54.5	55	10	COMB

Table 4 - Other clients view

Other clients	Italian BSLD Power					
	Bid			Offer		
	Company	Qty	Price	Price	Qty	Company
1 Jul-19		10	54.5	55	10	

In the above tables, we can see that COMA wants to buy 10MW of Italian power baseload in July 2019 and places a €54.50 (per MW hour) firm order (bid) on MSEL OTF. COMB wants to sell 10MW of Italian power baseload for July 2019 and places a firm order (offer) to sell at €55.00 (per MW hour) on MSEL OTF.

Below are two worked examples of how this scenario can result in a contract between COMA and COMB.

Example one

1. The MSEL broker contacts COMA via the Voice Trading System to see if they are willing to move their bid closer to, or to €55.00, in order for a

transaction to occur between COMA and the company offering at €55.00 (COMB)

2. COMA advises the MSEL Broker that they are unable to increase their bid of €54.50.
3. The MSEL broker then contacts COMB via the Voice Trading System to see if COMB are willing to reduce their offer of €55.00, in order for a transaction to occur between COMB and the company bidding at €54.50 (COMA). COMB confirms to the MSEL Broker that they are willing to consider the €54.50 bid.
4. Subsequently, COMB initiates a trade by clicking on the €54.50 bid on the Electronic Trading System and simultaneously removes their €55.00 offer from the Electronic Trading System.
5. A trade record is then created on the Electronic Trading System demonstrating that COMA and COMB have agreed a transaction, pending execution. This trade record is also visible to other clients on the Electronic Trading System, but on an anonymous basis.
6. The MSEL Broker is alerted to the fact that a pending transaction exists.
7. The MSEL broker then executes the transaction at their discretion.
8. Once the transaction has been executed by the MSEL Broker, the trade record is updated to show that the transaction has been executed and COMA and COMB are alerted to the fact that the transaction is complete, and a contract has now been created between the two.
9. Settlement would occur outside of MSEL OTF and is the responsibility of the counterparties - MSEL is not involved in this process.

Example two:

1. The MSEL broker contacts COMA via the Voice Trading System to see if they are willing to move their bid closer to, or to €55.00, in order for a transaction to occur between COMA and the company offering at €55.00 (COMB).
2. COMA advises the MSEL Broker that they are unable to increase their bid of €54.50.
3. The MSEL broker then contacts COMB via the Voice Trading System to see if COMB are willing to reduce their offer of €55.00, in order for a transaction to occur between COMB and the company bidding at €54.50 (COMA). COMB confirms to the MSEL Broker that they are willing to consider the €54.50 bid.
4. The MSEL Broker then clicks on COMA's €54.50 bid on COMB's behalf in the Electronic Trading System and executes the transaction in COMB's name. The MSEL Broker also simultaneously removes COMB's offer of €55.00 from MSEL OTF.

5. A trade record is then created on the Electronic Trading System demonstrating that COMA and COMB have agreed a transaction, pending execution. This trade record is also visible to other market participants but will not include the names of the counterparties.
6. The MSEL Broker is alerted to the fact that a pending transaction exists.
7. The MSEL broker then executes the transaction at their discretion.
8. Once the transaction has been executed by the MSEL Broker, the trade record is updated to show that the transaction has been executed and COMA and COMB are alerted to the fact that the transaction is complete, and a contract has now been created between the two Clients.
9. Settlement would occur outside of MSEL OTF and is the responsibility of the Clients - MSEL OTF is not involved in this process.

2.2. Voice Trading System:

(A) Description

Under MSEL OTF's Voice Trading System, Orders are placed by Clients interacting with the MSEL Broker through communication channels such as telephone and instant messenger. Where a Client contacts the MSEL Broker through the Voice Trading System with an Order that is not a firm order (i.e. a definite order as to volume, price and product), the MSEL Broker may liaise with that Client and other Clients through the Voice Trading System in order to bring about a firm order. Where a Client contacts the MSEL Broker and provides all the required information for a firm order, the MSEL Broker may liaise with other clients and the initiating client through the Voice Trading System in order to try and bring about a transaction by matching compatible trading interests between Clients, acting in accordance with the OTF Order Execution Policy.

(B) Worked example of an Order executed on the Voice Trading System

In this example, we assume that COMA and COMB wish to bring about a transaction in Italian Power baseload on MSEL OTF through the Voice Trading System.

1. COMA contacts the MSEL Broker via the Voice Trading System and expresses an interest in buying some Italian Power baseload in July 2019 at around market price.
2. The MSEL Broker contacts various clients that are active in the Italian Power market via the Voice Trading System. Only COMB responds positively and expresses an interest in selling Italian Power baseload for July 2019. COMB states that this would be at around €55.00 per MW hour for a minimum of 10 MW, and requests that the MSEL Broker obtains further information on quantity before it places a firm order.
3. The MSEL Broker reverts back to COMA via the Voice Trading System with

this information (but does not disclose COMB's name to COMA). COMA asks if the other party would be willing to sell at €54.50 per MW.

4. The MSEL Broker places COMA on hold and re-establishes contact with COMB and conveys that the other party is looking to buy at €54.50. COMB confirms that this price is acceptable, subject to confirmation of quantity being a minimum of 10 MW (and a maximum of 20 MW).
5. The MSEL Broker confirms to COMA that €54.50 is acceptable to the other party, on the proviso that COMA is willing to buy between 10 and 20 MWs. COMA confirms they want to buy 10 MW and the MSEL Broker immediately exercises his discretion to execute the transaction. At the same time, the MSEL Broker confirms to COMB that they have been filled at €54.50 for 10 MW, for July 2019.
6. Upon execution, confirmation of the transaction is sent to COMA and COMB and details of the transaction may be entered into the Electronic Trading System by the MSEL Broker and become visible to other Clients.
7. Settlement would occur outside of MSEL OTF and is the responsibility of the Clients - MSEL OTF is not involved in this process